

Quarterly Commentary: Sustainable Quantitative Portfolios (QPs) Large Cap Core

First Quarter (Q1) 2022

Market Environment

The US economy generated accelerated growth in the quarter, as pandemic-related restrictions had increasingly been lifted and the Omicron variant emerged too late to have affected the data. Against this backdrop, the Bureau of Economic Analysis released the third estimate of the fourth-quarter 2021 real GDP, a seasonally adjusted annualized increase of 6.9%, slightly lower than the prior estimate, but a meaningful improvement over the 2.3% increase in the prior quarter. The employment situation surprised on the upside in the quarter, as gains were far above expectations. The February report showed that employers added 678,000 jobs in the month, and that the unemployment rate fell to 3.8%. The Federal Open Market Committee (FOMC) began what is expected to be a long cycle of interest rate increases, raising its federal funds rate target range to 0.25%-0.50%, from a range of 0%-0.25%. The FOMC signaled that this increase will be the start of what it referred to as an "ongoing" series of increases. Analysts expect the FOMC to implement an additional five or six rate hikes by year end as it attempts to cool inflation while not harming the economy.

Portfolio Commentary

The Sustainable Large Cap Core strategy generated a negative absolute return in the quarter, and also modestly underperformed the benchmark on a relative basis. The strategy generated a total return of -5.53% compared with the -5.34% return of the CRSP US Large Cap Index.

Sector selection typically has a relatively minor effect on performance, as the QPs are constructed to be sector neutral at rebalancing. However, in the latest quarter, the portfolio's relative performance was driven primarily by sector selection rather than individual security selection. Sector allocation detracted 43 basis points from performance, whereas stock selection within sectors contributed 24 basis points during the quarter. The sectors in which positive stock selection occurred included Communication Services and Health Care. Sectors that experienced negative stock selection included Financials and Industrials.

Positively contributing to the Sustainable Large Cap Core strategy's performance during the quarter was a lack of exposure to Meta Platforms Inc. Class A (FB), which plunged about 34%, and contributed 54 basis points to the portfolio's performance.

The portfolio also benefited from an overweight to AmerisourceBergen Corp (ABC). The health care services provider's stock tacked on almost 17%.

Westinghouse Air Brake Technologies Corp.'s (WAB) overweight relative to the benchmark resulted in a 23 basis-point contribution to the portfolio. The machinery company's stock gained about 5% in the quarter.

An underweight position to Chevron Corp. (CVX) detracted 25 basis points from the portfolio's active return. The oil and gas company's stock jumped by more than 40%.

Lack of exposure to Berkshire Hathaway Inc. Class B (BRK.B) detracted 21 basis points from the portfolio's performance, as the stock experienced an 18% advance during this quarter.

The portfolio also suffered during the quarter from an overweight to The Estee Lauder Companies Inc. Class A (EL). The stock of the personal products manufacturer sank by more than 26%.

Inflation is at the highest level in more than 40 years, and investors are anxious about how the FOMC will attempt to dampen further price increases. Supply chain issues persist, but economic growth is expected to continue over the next few quarters. New virus variants and an expansion of geopolitical tensions could create additional financial markets volatility, as could the lead-up to this fall's mid-term elections.

Model Portfolio Attribution

	Performance Driver	Active Return Contribution	Portfolio Exposure	Average Weight in Model	Comments
Contributors	Meta Platforms Inc. Class A (FB)	+54 bps	No exposure	0.00%	The interactive media services company's stock plunged by 34%.
	Amerisource Bergen Corp. (ABC)	+28 bps	Overweight	1.45%	The company's stock rallied by 17%.
	Westinghouse Air Brake Technologies Corp. (WAB)	+23 bps	Overweight	2.52%	The machinery manufacturer's stock gained about 5% in the quarter.
	Enphase Energy Inc. (ENPH)	+20 bps	Overweight	0.78%	The stock of the semiconductor company advanced more than 10%.
	Baker Hughes Co. Class A (BKR)	+17 bps	Overweight	0.48%	The energy equipment and services firm's stock surged by more than 52%.
Detractors	Chevron Corp. (CVX)	-25 bps	Underweight	0.02%	The oil and gas company's stock gained more than 40% in the quarter.
	Berkshire Hathaway Inc. Class B (BRK.B)	-21 bps	No exposure	0.00%	The stock of the financial services company added approximately 18%.
	The Estee Lauder Companies Inc. Class A (EL)	-18 bps	Overweight	0.96%	The stock of the personal products manufacturer sank by more than 26%.
	IPG Photonics Corp. (IPGP)	-17 bps	Overweight	0.50%	The stock of the electronic equipment company plummeted by almost 33%.
	Netflix Inc. (NFLX)	-16 bps	Overweight	0.84%	The entertainment firm's stock sank by almost 38%.

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Disclosure

The **Russell 1000 Index** is a market capitalization weighted benchmark index made up of the 1000 largest U.S. companies in the Russell 3000 Index. The **Russell 1000 Value Index** refers to a composite of large and mid-cap companies located in the United States that also exhibit a value probability. The **CRSP US Large Cap Index** includes U.S. companies that comprise the top 85% of investable market capitalization.

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